TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2901 – HB 3752

February 16, 2012

SUMMARY OF BILL: Increases the amounts of income exempt from the Hall Income Tax, from $1,250 to $7,500 for single filers, and from $2,500 to $15,000 for joint filers, for tax years beginning on or after January 1, 2013.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - $28,380,000/FY13-14 and Subsequent Years

Decrease Local Revenue – Net Impact - $17,312,400/FY13-14 and Subsequent Years

Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, the Hall Income Tax (HIT) is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given this bill shall be applied to tax years beginning with tax year 2013, and assuming that 100 percent of HIT owed for tax year 2013 is collected no later than June 30, 2014, the first year impact by this bill will be FY13-14. This collection pattern is assumed to remain constant into perpetuity.
- The current Fiscal Review Committee estimate for HIT collections for FY12-13 is $211,140,000.
- According to the Department of Revenue (DOR), HIT collections for tax year 2010 were $170,386,165. DOR indicates that if this bill were applied to 2010 taxpayers, there would have been a decrease in HIT revenue of $38,703,664. The Fiscal Review Committee staff does not have access to the data and information upon which this calculation is based and cannot independently verify its accuracy.
- Based on the information provided by DOR, approximately 22.72 percent of HIT revenue will be eliminated by this bill ($38,703,664 / $170,386,165).

- The recurring decrease in HIT revenue is estimated to be $47,971,008 ($211,140,000 x 22.72%) for FY13-14 and subsequent years.
- Pursuant to Tenn. Code Ann. § 67-2-119(a), the state retains 62.5 percent of HIT revenue; local governments are apportioned 37.5 percent.
- The recurring decrease in HIT revenue retained by the state is estimated to be $29,981,880 ($47,971,008 x 62.5%); the recurring decrease in HIT revenue apportioned to local governments is estimated to be $17,989,128 ($47,971,008 x 37.5%).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring increase in state sales tax revenue is estimated to be $1,678,985 ($47,971,008 x 50.0% x 7.0%) for FY13-14 and subsequent years; the recurring increase in local option sales tax revenue is estimated to be $599,638 ($47,971,008 x 50.0% x 2.5%) for FY13-14 and subsequent years.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The recurring increase in local revenue pursuant to the state-shared allocation is estimated to be $77,107 ($1,678,985 x 4.5925%) for FY13-14 and subsequent years.
- The net recurring increase in state sales tax revenue is estimated to be $1,601,878 ($1,678,985 - $77,107) for FY13-14 and subsequent years.
- The net recurring increase in local sales tax revenue is estimated to be $676,745 ($599,638 + $77,107) for FY13-14 and subsequent years.
- The total recurring decrease in state revenue as a result of this bill is estimated to be $28,380,002 ($29,981,880 - $1,601,878) for FY13-14 and subsequent years.
- The total recurring decrease in local revenue as a result of this bill is estimated to be $17,312,383 ($17,989,128 - $676,745) for FY13-14 and subsequent years.
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur if the state's population increases as a result of a reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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